

DEEP RIVER TOWNSHIP  
ARENAC COUNTY  
STATE OF MICHIGAN

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2005

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Deep River Township	County Arenac
Fiscal Year End June 30, 2005	Opinion Date May 3, 2006	Date Audit Report Submitted to State May 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

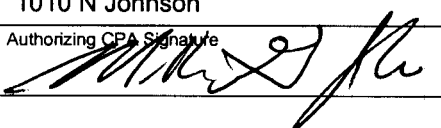
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Quast, Janke & Co. CPA's, P.C.		Telephone Number 989-892-4549	
Street Address 1010 N Johnson		City Bay City	State MI
		Zip 48708	
Authorizing CPA Signature 		Printed Name Mark G Janke	License Number 1101008729

## TABLE OF CONTENTS

	<u>PAGE</u>
Report Letter	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Fiduciary Fund - Statement of Fiduciary Net Assets	14
Notes to Financial Statements	15 - 20
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	21
Budgetary Comparison Schedule - Road Fund	22
Other Supplemental Information	
Combining Balance Sheet - Nonmajor Governmental Funds	23
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -Nonmajor Governmental Funds	24
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance	25
General Fund - Detail of Expenditures	26 - 28

*Quast, Janke and Company, P.C.*  
*Certified Public Accountants*

---

1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

*Timothy J. Quast, C.P.A.*  
*Mark G. Janke, C.P.A.*  
*Ned E. Kleinke, C.P.A.*  
*David G. Gwizdala, C.P.A.*

*Members:*  
*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

## REPORT LETTER

May 3, 2006

To The Township Board  
Deep River Township  
Arenac County  
Standish, Michigan 48658

We have audited the accompanying financial statements of the Government Activities, each major fund, and the aggregate remaining fund information of the Deep River Township as of and for the year ended June 30, 2005, which collectively comprise the Township's financial statements as listed in the table of contents. These financial statements are the responsibility of the Deep River Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government Activities, each major fund, and aggregate remaining fund information of the Deep River Township as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 23 through 26 are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Deep River Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY

  
Certified Public Accountants, P.C.

# Deep River Township

## Management's Discussion and Analysis

This section of Deep River Township's Annual Financial Report presents our discussion and analysis of the Township's financial performance during the year ended June 30, 2005. Please read it in conjunction with the Township's financial statements, which immediately follows this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Deep River Township financially as a whole. The government-wide Financial Statements provide information about the activities of Deep River Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds – the General Fund, Road Fund, Cemetery Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent.

Management's Discussion and Analysis (MD &A)  
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

### Reporting the Township as a Whole – Government-Wide Financial Statements

One of the most important questions asked about the Township is, "As a whole, what is the Township's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Township's financial statements, report information on the Township as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Township's operating results. However, the Township's goal is to provide services to our residents, not to generate profits as commercial entities do.

The statements of net assets and statement of activities report the governmental activities for the Township, which encompass all of the Township's services, including legislative, general government, public safety, public works and culture and recreation. Property taxes, special assessments, and unrestricted State shared revenue finance most of these activities.

### Reporting the Township's Most Significant Funds – Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law. However, the Township establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Township use the following accounting approach:

**Governmental funds** – All of the Township's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Township and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

### The Township as a Whole

Recall that the statement of net assets provides the perspective of the Township as a whole. Table 1 provides a summary of the Township's net assets as of June 30, 2005:

TABLE 1:

	<u>Governmental Activities 2005</u>
<b>Assets</b>	
Current and other assets	\$ 244,796
Capital assets – Net of accumulated depreciation	<u>302,362</u>
Total assets	547,158
<b>Liabilities</b>	
Current liabilities	<u>14,035</u>
<b>Net Assets</b>	
Invested in property and equipment	292,986
Restricted	44,304
Unrestricted	<u>195,833</u>
Total net assets	<u>\$ 533,123</u>

# Deep River Township

## Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Township's governmental activities is discussed below. The Township's net assets were \$533,123 at June 30, 2005. Capital assets reflects the original cost, less depreciation of the Township's capital assets. The remaining amount of net assets (\$244,796) was unrestricted.

The \$244,796 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2005.

TABLE 2:

	<u>Governmental Activities 2005</u>
<b>Revenue</b>	
Program revenue:	
Charges for services	\$ 9,728
Grants, contributions and other	0
General revenue:	
Property taxes	62,344
Special voted taxes and special assessments	44,980
State shared revenue	122,529
Other	<u>58,456</u>
Total revenue	298,037
<b>Function/Program Expenses</b>	
Legislative	34,756
General Government	119,291
Public Safety	31,967
Public Works	88,102
Cultural and Recreation	7,301
Interest on Long-Term Debt	<u>1,857</u>
Total expenses	<u>283,274</u>
<b>Increase in Net Assets</b>	<u>\$ 14,763</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$283,274. Certain activities were partially funded from those who benefitted from the program or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$107,324 in taxes, \$122,529 in State shared revenue, and with our other revenues, such as interest and other.

The Township experienced an increase in net assets of \$14,763. The increase in net assets differs from the change in fund balance and reconciliation appears on page 14.

As discussed above, the net cost shows the financial burden that was placed on the State and the Township's taxpayers by each of these functions. Since property taxes for operations and State shared revenues constitute the majority of Township operating revenue sources, the Board of Trustees must annually evaluate the needs of the Township and balance those needs with State-prescribed available unrestricted resources.



**The Township's Funds**

As we noted earlier, the Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

As the Township completed this year, the governmental funds reported a combined fund balance of \$240,137, which is an increase of \$1,498 from last year. The General Fund, our principal operating fund, the balance increased \$4,306. Overall, actual General Fund revenues were within 103 percent of budgeted amounts, and expenditures were within 90% of budgeted amounts.

The Road Fund fund balance decreased \$1,567.

**Budgetary Highlights**

Over the course of the year, the Township revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the original budgets were as follows:

All Budgeted Funds -

- There were only minor minimal increases in budgeted expenditures, if any.
- There were no significant variances between the final budget and actual costs.

**Capital Asset and Debt Administration****Capital Assets**

At June 30, 2005, the Township had \$555,632 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$14,042.

	<u>2005</u>
Land and improvements	\$ 88,502
Buildings and improvements	222,674
Vehicles	162,892
Equipment	<u>81,564</u>
Total capital assets	555,632
Less accumulated depreciation	<u>253,269</u>
Net capital assets	<u>\$ 302,363</u>

This year's additions of \$19,042 consisted of parking lot paving and computer equipment for the Assessor.

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials consider many factors when setting the Township's 2006 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy. This resulted in a \$6,375 decrease in State shared revenues in the year ended June 30, 2005 and additional cuts may be forthcoming in 2006.

### **Contacting the Township's Financial Management**

This financial report is designed to provide the Township's citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deep River Township, 511 State St, Sterling, MI 48659.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Cash	\$ 218,024
Other receivables	600
Due from State	17,774
Due from other funds	8,398
Capital assets	555,632
Accumulated depreciation	<u>(253,270)</u>
Total Assets	547,158
LIABILITIES:	
Current portion of long-term liabilities	9,376
Accounts payable	<u>4,659</u>
Total Liabilities	14,035
NET ASSETS:	
Investment in capital assets net of related debt	292,986
Restricted	44,304
Unrestricted	<u>195,833</u>
Total Net Assets	\$ <u><u>533,123</u></u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

		Program Revenues		Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expenses) Revenues and Changes in Net Assets
GOVERNMENTAL ACTIVITIES:				
Legislative	\$ 34,756	\$ 0	\$ 0	\$ (34,756)
General Government	119,291	9,728	0	(109,563)
Public Safety -				
Fire	22,687	0	0	(22,687)
Other	9,280	0	0	(9,280)
Public Works	88,102	0	0	(88,102)
Culture and Recreation -	7,301	0	0	(7,301)
Interest on long-term debt	1,857			(1,857)
Total Governmental Activities	\$ <u>283,274</u>	\$ <u>9,728</u>	\$ <u>0</u>	(273,546)
GENERAL PURPOSE REVENUES:				
Property taxes -				
General Levy				62,344
Special Voted - Roads				44,980
State shared revenues				122,529
Investment earnings				6,752
Other				51,704
Total General Purpose Revenues				<u>288,309</u>
Change in Net Assets				14,763
Net Assets - Beginning of Year				<u>518,360</u>
Net Assets - End of Year				\$ <u>533,123</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2005

	GENERAL	ROAD	OTHER NONMAJOR GOVERNMENTAL FUNDS	Total
ASSETS:				
Cash in bank	\$ 165,313	\$ 44,304	\$ 8,407	\$ 218,024
Other receivables	600	0	0	600
Due from State	17,774	0	0	17,774
Due from other Funds	8,398	0	0	8,398
TOTAL ASSETS	\$ <u>192,085</u>	\$ <u>44,304</u>	\$ <u>8,407</u>	\$ <u>244,796</u>
LIABILITIES:				
Accounts payable	\$ 2,392	\$ 0	\$ 0	\$ 2,392
Payroll taxes	2,167	0	0	2,167
Other liabilities	100	0	0	100
TOTAL LIABILITIES	4,659	0	0	4,659
FUND EQUITY:				
Reserved	0	44,304	0	44,304
Unreserved	187,426	0	8,407	195,833
TOTAL FUND EQUITY	187,426	44,304	8,407	240,137
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>192,085</u>	\$ <u>44,304</u>	\$ <u>8,407</u>	\$ <u>244,796</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS  
June 30, 2005

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 240,137.00
Amounts reported for governmental activities in the statement of net assets are different because -	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Capital assets at cost	555,632
Accumulated depreciation	(253,270)
Long-Term liabilities not due and payable in the current period and not reported in the funds	<u>(9,376)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>533,123</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2005

	GENERAL	ROAD	OTHER NONMAJOR GOVERNMENTAL FUNDS	Total
REVENUES:				
Taxes	\$ 62,344	\$ 44,980	\$ 0	\$ 107,324
Special Assessments	628	0	0	628
Licenses & Permits	6,983	0	0	6,983
State Grants	118,593	3,936	0	122,529
Contributions from Local Units	0	0	33,430	33,430
Charges for Services	538	0	9,190	9,728
Interest and Rentals	6,674	34	44	6,752
Other Revenue	10,439	0	225	10,664
Total Revenues	206,199	48,950	42,889	298,038
EXPENDITURES:				
Legislative	34,756	0	0	34,756
General Government	114,164	0	15,700	129,864
Public Safety	9,280	0	0	9,280
Public Works	37,585	50,517	0	88,102
Cultural and Recreation	3,608	0	0	3,608
Debt Service	0	0	30,930	30,930
Total Expenditures	199,393	50,517	46,630	296,540
EXCESS OF REVENUES OVER EXPENDITURES	6,806	(1,567)	(3,741)	1,498
OTHER FINANCING SOURCES (USES):				
Transfer from other funds		0	2,500	2,500
Transfer to other funds	(2,500)	0	0	(2,500)
Total Other Financing Sources (Uses)	(2,500)	0	2,500	0
NET CHANGE IN FUND BALANCES	4,306	(1,567)	(1,241)	1,498
FUND BALANCE - Beginning of Year	183,120	45,871	9,648	238,639
FUND BALANCE - End of Year	\$ 187,426	\$ 44,304	\$ 8,407	\$ 240,137

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	1,498
Amounts reported for governmental activities in the statement of activities are different because -		
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated lives as depreciation:		
Depreciation expense		(34,849)
Capital outlay		19,042
Installment purchase principal repayment reported as an expenditure in governmental funds and as a reduction of long-term debt in the statement of activities		29,073
Rounding		<u>(1)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>14,763</u></u>

The accompanying notes are an integral part of the financial statements.



DEEP RIVER TOWNSHIP  
Arenac County, Michigan

STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2005

	<u>Trust &amp; Agency</u>	<u>Current Tax Collections</u>
ASSETS:		
Cash in bank	\$ <u>7,498</u>	\$ <u>900</u>
LIABILITIES:		
Due to General Fund	\$ <u>7,498</u>	\$ <u>900</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Deep River Township is located in Arenac County and operated under an elected Board of Trustees (5 members) and provides services to its residents in many areas. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY:

In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB No. 14. The basic - but not the only - criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Township is able to exercise oversight responsibilities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Township's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identified with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

DEEP RIVER TOWNSHIP  
ARENEC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes taxes and unrestricted State aid.

Fund-based Statements - Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Fiduciary Fund statements are also reported using the economic resources measurement focus and the modified accrual basis of accounting.

The Township reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Road Fund - The Road Fund is used to record property tax revenue, interest earnings and other revenue restricted for use on Township roads.

**Assets, Liabilities, and Net Assets or Equity**

Deposits - Cash and cash equivalents include cash on hand and demand deposits.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both entity-wide and fund financial statements.

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an individual cost of more than \$300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Compensated Absences - There is no liability for compensated absences reported in the government-wide statements since no township employees are provided with sick or vacation pay benefits.

Long term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have significant expenditure budget variances.

Fund Deficits - The Township had no accumulated fund balance deficits.

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS :

Deposits of the Township are carried at cost and maintained at Citizens Bank, Independent Bank and Chemical Bank, federally insured banks.

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Township is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Township's deposits are in accordance with statutory authority.

At year end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	<u>\$ 218,024</u>	<u>\$ 8,398</u>	<u>\$ 226,422</u>

The Government Accounting Standards Board Statement No. 3 requires the amount of total bank balances to be classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
- (3) Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent by not in the entity's name). Bank deposits including certificates of deposit:

	<u>Primary Government</u>
Category 1.	\$ 226,422
Category 2.	-
Category 3.	-
Total Bank Balances	<u>\$ 226,422</u>
Carrying Amount	<u>\$ 224,422</u>

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 4 CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2004</u>	Additions	Disposals	Balance <u>June 30, 2005</u>
Land and improvements	\$ 69,730	\$ 18,772	\$ -	\$ 88,502
Buildings and improvements	222,209	465	-	222,674
Vehicles	162,893	-	-	162,892
Equipment	<u>81,759</u>	<u>1,870</u>	<u>2,065</u>	<u>81,564</u>
Total Capital Assets	536,590	21,107	2,065	555,632
Accumulated Depreciation				
Land and improvements	-	5,676	-	5,676
Buildings and improvements	55,010	4,288	-	59,298
Vehicles	105,128	22,643	-	127,771
Equipment	<u>58,282</u>	<u>3,947</u>	<u>1,705</u>	<u>60,524</u>
Total Accumulated Depreciation	<u>218,420</u>	<u>36,554</u>	<u>1,705</u>	<u>253,269</u>
Net Capital Assets	<u>\$ 318,170</u>	<u>\$(15,447)</u>	<u>\$ 360</u>	<u>\$ 302,363</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental activities:	\$ 8,469
Public safety	22,687
Recreation and culture	<u>3,693</u>
Total government activities	<u>\$ 34,849</u>

NOTE 5. RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, errors, omissions, employee injuries, and workman's compensation benefits.

The Township has purchased commercial insurance for general liability, errors and omissions, physical damage for equipment, buildings and contents and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 8,398		\$ -
Current Tax Collections	-		900
Trust and Agency	<u>-</u>		<u>7,498</u>
	<u>\$ 8,398</u>		<u>\$ 8,398</u>

DEEP RIVER TOWNSHIP  
ARENAC County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued):

Operating transfers during the year:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 2,500
Cemetery Fund	<u>2,500</u>	<u>-</u>
	<u>\$ 2,500</u>	<u>\$ 2,500</u>

Transfers are used to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7. LONG-TERM DEBT:

The Township entered into the installment purchase obligation to acquire a fire truck and a 2002 Chevrolet pickup. As of June 30, 2005, both installment purchase obligations will be retired during the year ended June 30, 2006.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>
Governmental Activities:			
Installment purchases:			
Fire Truck	\$ 23,860	\$ (21,986)	\$ 1,874
2002 Chevrolet	<u>14,589</u>	<u>(7,085)</u>	<u>7,502</u>
Total Governmental Activities	<u>\$ 38,449</u>	<u>\$ (29,071)</u>	<u>\$ 9,376</u>

Annual debt service requirements to maturity for the installment purchases are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 9,376	\$ 590	\$ 9,966

NOTE 8. PENSION PLAN:

Deep River Township has a defined contribution plan for employees other than elected officials or part-time workers, through Manulife. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the amount earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township's pension plan agreement specified which Township positions are covered by the plan. Contributions made by an employee and the Township vest immediately. An employee that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account. Effective January 1, 2005, the Township contribution was reduced from 15% to 3 1/2% of annual compensation for covered employees.

REQUIRED SUPPLEMENTAL INFORMATION



DEEP RIVER TOWNSHIP  
Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Taxes	\$ 37,075	\$ 37,075	\$ 62,344
Special Assessments	600	600	628
Licenses & Permits	0	0	6,983
State Grants	0	0	118,593
Charges for Services	0	0	538
Interest and Rentals	0	0	6,674
Other Revenue	<u>162,760</u>	<u>162,760</u>	<u>10,439</u>
Total Revenues	200,435	200,435	206,199
EXPENDITURES:			
Legislative	64,200	53,507	34,756
General Government	109,912	112,500	114,164
Public Safety	16,000	9,500	9,280
Public Works	40,800	42,300	37,585
Cultural and Recreation	<u>3,000</u>	<u>3,650</u>	<u>3,608</u>
Total Expenditures	233,912	221,457	199,393
OTHER FINANCING SOURCES (USES):			
Transfer to other funds	<u>0</u>	<u>0</u>	<u>2,500</u>
NET CHANGE IN FUND BALANCE	(33,477)	(21,022)	4,306
FUND BALANCE - BEGINNING OF YEAR	<u>183,120</u>	<u>183,120</u>	<u>183,120</u>
FUND BALANCE - END OF YEAR	\$ <u>149,643</u>	\$ <u>162,098</u>	\$ <u>187,426</u>

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - ROAD FUND  
Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Taxes	\$ 44,000	\$ 44,000	\$ 44,980
State Grants	0	0	3,936
Interest and Rentals	0	0	34
Total Revenues	44,000	44,000	48,950
EXPENDITURES:			
Public Works	44,000	44,000	50,517
NET CHANGE IN FUND BALANCE	0	0	(1,567)
FUND BALANCE - BEGINNING OF YEAR	45,871	45,871	45,871
FUND BALANCE - END OF YEAR	\$ 45,871	\$ 45,871	\$ 44,304

OTHER SUPPLEMENTAL INFORMATION

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2005

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Fire</u>	<u>Cemetery</u>	
<u>ASSETS</u>			
Cash in bank	\$ <u>0</u>	\$ <u>8,407</u>	\$ <u>8,407</u>
<u>FUND BALANCE</u>			
Fund Balance	\$ <u>0</u>	\$ <u>8,407</u>	\$ <u>8,407</u>

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2005

	Special Revenue Funds		Total
	Fire	Cemetery	
REVENUES:			
Contributions from Local Units	\$ 30,930	\$ 2,500	\$ 33,430
Charges for Services	0	9,190	9,190
Interest and Rentals	0	44	44
Other Revenues	0	225	225
Total Revenues	30,930	11,959	42,889
EXPENDITURES:			
General Government	0	15,700	15,700
Debt Service	30,930	0	30,930
Total Expenditures	30,930	15,700	46,630
EXCESS OF REVENUES OVER EXPENDITURES	0	(3,741)	(3,741)
OTHER FINANCING SOURCES:			
Transfer from General Fund	0	2,500	2,500
NET CHANGE IN FUND BALANCE	0	(1,241)	(1,241)
FUND BALANCE - Beginning of Year	0	9,648	9,648
FUND BALANCE - End of Year	\$ 0	\$ 8,407	\$ 8,407

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2005

REVENUES:

Taxes -

Current tax levy	\$ 47,155
Swamp & Forest	1,375
Administration fees	<u>13,814</u>

Total Taxes	62,344
-------------	--------

Special Assessments - Street Lights	628
--	-----

Licenses & Permits - Building Permits	6,983
--	-------

State Grants - Sales tax	118,593
-----------------------------	---------

Charges for Services - Land division	500
Other	<u>38</u>

Total Charges for Services	538
----------------------------	-----

Interest and Rentals - Interest earned	1,951
Oil royalties	2,158
Rents	<u>2,565</u>

Total Interest and Rentals	6,674
----------------------------	-------

Other Revenue - Miscellaneous	<u>10,439</u>
-------------------------------	---------------

Total Revenues	206,199
----------------	---------

EXPENDITURES	<u>199,393</u>
--------------	----------------

EXCESS OF REVENUES OVER EXPENDITURES	6,806
--------------------------------------	-------

OTHER FINANCING SOURCES (USES):

Transfer to Cemetary Fund	<u>2,500</u>
---------------------------	--------------

NET CHANGE IN FUND BALANCE	4,306
----------------------------	-------

FUND BALANCE - Beginning of Year	<u>183,120</u>
----------------------------------	----------------

FUND BALANCE - End of Year	<u>\$ 187,426</u>
----------------------------	-------------------

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES  
Year Ended June 30, 2005

EXPENDITURES:

LEGISLATIVE:

Township Board -

Trustees' salaries	\$ 3,749
Other wages	5,470
Legal & professional	2,805
Membership dues	1,816
Printing and publishing	925
Retirement administration fees	1,429
Seminars and conventions	4,154
Travel	925
Supplies and other costs	2,336
Insurance	7,269
Payroll taxes	3,878

Total Legislative 34,756

GENERAL GOVERNMENT:

Supervisor -

Salary 8,520

Elections -

Wages 3,932

Supplies and other costs 2,751

Total Elections 6,683

Assessor -

Salary 19,110

Contracted services 2,065

Supplies and other costs 5,942

Capital outlay 1,870

Total Assessor 28,987

Clerk -

Salary 10,125

Supplies and other costs 427

Total Clerk 10,552

Board of Review -

Salaries 1,950

Supplies and other costs 105

Total Board of Review 2,055

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (Continued)  
Year Ended June 30, 2005

EXPENDITURES (CONT.):

GENERAL GOVERNMENT (CONT.):

Treasurer -

Salary	\$ 15,318
Deputy Treasurer	3,207
Supplies and other costs	6,438
	<hr/>

Total Treasurer	24,963
-----------------	--------

Township Hall -

Salaries	1,800
Utilities	4,749
Telephone	1,098
Repairs and maintenance	7,263
Supplies and other costs	322
Capital Outlay	17,172
	<hr/>

Total Township Hall	32,404
---------------------	--------

Total General Government	114,164
--------------------------	---------

PUBLIC SAFETY:

Building Inspector -

Salary	5,525
Supplies and other costs	356
	<hr/>

Total Building Inspector	5,881
--------------------------	-------



DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (Continued)  
Year Ended June 30, 2005

EXPENDITURES (CONT.):

Zoning & Planning

Salaries

\$ 3,257

Supplies and other costs

142

Total Zoning & Planning

3,399

Total Public Safety

9,280

PUBLIC WORKS:

Highway, Streets and Bridges -

Routine maintenance

34,531

Street Lighting -

Utilities

794

Drain-at-large

2,260

Total Public Works

37,585

CULTURAL AND RECREATIONAL:

Library -

Operating allocation

1,000

Park -

Salary

958

Supplies and other costs

1,650

Total Park

2,608

Total Cultural and Recreational

3,608

TOTAL EXPENDITURES

\$ 199,393

# *Quast, Janke and Company, P.C.*

*Certified Public Accountants*

1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708

Phone: (989) 892-4549

Fax: (989) 892-4030

*Timothy J. Quast, C.P.A.*  
*Mark G. Janke, C.P.A.*  
*Ned E. Kleinke, C.P.A.*  
*David G. Gwizdala, C.P.A.*

*Members:*  
*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

May 3, 2006

Deep River Township  
PO Box 440  
Sterling, MI 48659

Ladies and Gentlemen:

As a regular part of our audit of the financial statements of the Township of Deep River for the year ended June 30, 2005, we have reviewed the Township's accounting procedures and internal controls surrounding the recording of accounting transactions. This letter presents comments and recommendations to strengthen these controls and increase administrative efficiency. These recommendations do not, of course, include all possible recommendations, but only those areas of potential improvement which came to our attention during our audit of the financial statements as of June 30, 2005.

Nothing came to our attention that would indicate any improper or illegal actions have been committed by Township officials.

## RECOMMENDATIONS

1. In reviewing your budgets for the year ended June 30, 2005, we noticed some areas of your budgets and budgeting processes that are not in compliance with Public Act 621 of 1978 (the Uniform Budgeting and Accounting Act).
- A. Section 18(3) of Public Act 621 prohibits the Township from incurring expenditures against an account in excess of the amount appropriated. The following variations were noted:

<u>Fund</u>	<u>Total Budgeted</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund -			
Treasurer	\$ 24,200	\$ 24,963	\$ 963
Assessor	27,200	28,987	1,787
Board of Review	2,000	2,055	55
Transfer to Cemetery Fund	0	2,500	2,500

<u>Fund</u>	<u>Total Budgeted</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
Road Fund - Roads	\$ 44,000	\$ 50,517	\$ 6,517
Fire Fund - Debt Service	0	30,930	30,930

We suggest that the budget be reviewed periodically and amendments to the amounts appropriated be made prior to the expenditure of any funds that exceed the amount appropriated.

We wish to express our appreciation for the assistance extended to our staff by the officials and employees of the Township. If we can be of further assistance in these or any other matters, please call upon us.

Sincerely,

QUAST, JANKE AND COMPANY, C.P.A.'S, P.C.

  
Mark G. Janke, C.P.A.